Good Fiduciary Oversight Enables Mission Focus and Success

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Canada has the 2nd largest charitable sector in the world, with an approximate 170,000 non-for-profit organizations and charities accounting for $106 billion, according to Imagine Canada. When it comes to the fiduciary oversight of this mass of assets, especially the investment portfolios, not-for-profit organizations could be doing a better job. In the Canadian charitable sector, there simply isn't enough attention being paid to fiduciary risk mitigation. Without proper attention, these not-for-profits could be exposed to unnecessary risk and ultimately loss.

If investment portfolios are not getting the appropriate attention, the overall performance of the portfolio may suffer. Fundraising is very challenging, and an inappropriate asset mix or underperforming investment manager can increase a not-for-profit's difficulties in raising future donations.

Below we have outlined the 3 different types of investment models that are typically utilised by Canadian not-for-profits.

1) DO-IT –YOURSELF (DIY)

Charities with a small investment portfolio (roughly $100,000 or less), typically use the DIY model. Given the small size of the portfolio, many charities will simply deposit these funds into a conservative investment solution such as a balanced mutual fund.

On the contrary, charities with very large investment pools, typically $500 million or more also utilise the DIY model. These larger organizations have the capacity to provide internal oversight, advice and reporting. While the fiduciary responsibility still lies with the Board, the staff team is involved in manager selection, monitoring, reporting, asset mix and other advisory functions.

2) THE VOLUNTEER MODEL

The volunteer model is probably the most widely used in Canada. In this structure, an Investment Committee, comprised of professionals with a plethora of knowledge and experience are involved in the process to monitor and report on the investment portfolio. This committee typically reports to the Board and usually meets once a quarter to discuss the not-for-profit's investments. The problem with solely employing this model is that four meetings a year is not ample time to fulfill the fiduciary duty of investment oversight. This is where the professional model fits into the equation.

3) THE PROFESSIONAL MODEL

In this model, the not-for-profit employs an investment advisory and consulting solution to advise on their investment portfolio. An investment advisory organization works with the Investment Committee to set the strategic direction for the not-for-profit's investment portfolio. They guide the committee in the selection and ongoing evaluation of the investment managers and they provide consolidated reporting. The Professional Model doesn't replace the Volunteer Model, but rather blends volunteer commitment and independent oversight to provide strong governance.

SO WHICH MODEL IS BEST?

Essentially, the answer depends on the size of the not-for-profit's investment portfolio. Throughout BULLWEALTH's 17 years of working with non-for-profits, we have found the optimal portfolio size for utilizing an investment advisory organization is in the $10MM – $250MM range, in order to benefit from a well-diversified portfolio, which captures upside gains but more importantly ensures downside protection. By employing the right investment oversight, charities can maintain a focus on what matters most – the fulfillment of their missions.